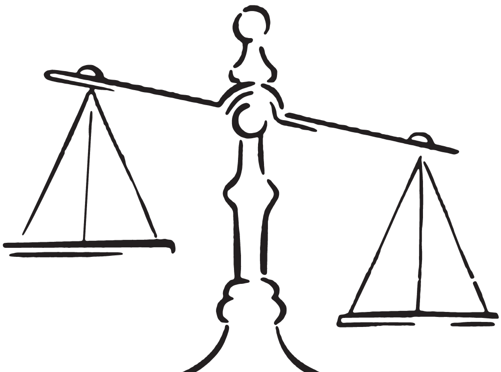
GUIDE

for Remunerating Independent Non-Executive directors

(3rd Edition)



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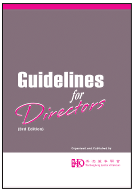
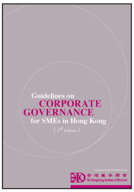
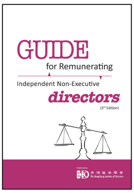


Guidelines for Directors is a desk-top and easy-to-carry reference book for both practising directors and newly appointed directors. It summarizes the law and recommends good practices in areas into which the law has not yet reached.

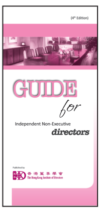


Guidelines on Corporate Governance for SMEs in Hong Kong serves as a tool for SME directors in securing strategic directions, business development and internal control. It provides SMEs with guidelines in five categories of companies varying in scale of operation. It also addresses issues of family companies and integration of management practices with governance.

SME Corporate Governance Toolkit - From Guidelines to Implementation was created and published by The Hong Kong Institute of Directors ("HKIoD") as a follow-up to the HKIoD guidebook, *Guidelines on Corporate Governance for SMEs in Hong Kong* ("Guidelines") to facilitate SMEs in the implementation of corporate governance practices. While the Guidelines address the "what-to-do" aspects of corporate governance practices, the Toolkit covers the "how-to-do" steps of implementation. It is recommended that both the Guidelines and the Toolkit are read as complementary reference tools for SMEs.



Guide for Remunerating Independent Non-Executive Directors provides companies with guidelines and assistance in engaging and remunerating INEDs with fair compensation packages, which together with appropriate motivation, enable INEDs to fulfill their responsibilities on the board, particularly from an independent perspective.



Guide for Independent Non-Executive Directors is a pocket guide that complements the *Guide for Remunerating Independent Non-Executive Directors* and helps INEDs understand their role as an independent voice on the board and the responsibility and authority the role carries with it.

Report on the HKIoD Corporate Governance Score-card documents findings of a survey on corporate governance practices of listed companies that are Hang Seng Index constituents, based on these companies' annual reports. It serves the purposes of raising community awareness, establishing benchmarks relevant to the Hong Kong financial market and compatible with international standards and helping Hong Kong companies to enhance corporate governance.

For more information: **http://www.hkiod.com**

GUIDE for Remunerating Independent Non-Executive directors

香港董事學會
The Hong Kong Institute of Directors

Published by

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About the Publisher

The Hong Kong Institute of Directors ("HKIoD") is Hong Kong's premier body representing professional directors working together to promote good corporate governance and to contribute towards advancing the status of Hong Kong, both in China and internationally. A non-profit-distributing organisation with membership consisting of directors from listed and non-listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors. With international perspectives and a multi-cultural environment, HKIoD conducts business in biliteracy and trilingualism.

Website: www.hkiod.com

PREFACE

In Hong Kong, the enhancement of the legal and regulatory regime, more and better public education in corporate governance and the development of training courses for directors have led to greater recognition of the important role of the Independent Non-Executive Director ("INED"). In addition to being a member of the board with responsibilities equal to executive board members and other non-executive board members, an INED plays a crucial role by virtue of his/her independent and non-executive status in the company. Most INEDs will also have special responsibilities such as being core members on Audit Committees, Remuneration Committees and Nomination Committees of listed companies and other entities.

The world trend is towards the stipulation by regulatory authorities of a minimum number of INEDs on company boards. In the USA, for example, the majority of boards are required to be filled by outside directors. The UK Combined Code specifies that 50% of the board composition should consist of INEDs.

The low level of remuneration offered to INEDs has been a major concern, and perhaps justifiably so, among practitioners. The scarcity of qualified and trained candidates in the community coupled with the apparent low level of INED fees have not contributed towards the development of a mature market for INEDs to exercise their roles to the fullest. With the introduction of requirements for listed companies in Hong Kong to increase the minimum number of INEDs to three and to one-third of the board in best practice, The Hong Kong Institute of Directors ("HKIoD") has taken the dual proactive steps of enhancing training programmes for INEDs and developing the set of guidelines in this publication for assessing fair compensation packages to attract qualified candidates for this very important board position.

This *Guide* complements the *Guide for Independent Non-Executive Directors* published by HKIoD. While this *Guide* aims to provide assistance for companies in engaging/remunerating INEDs, the *Guide for Independent Non-Executive Directors* provides INEDs with guidelines in performing their duties.

HKIoD would like to acknowledge all those who have participated in the development of this publication, particularly:-

- Author: Dr Carlye Tsui (徐尉玲博士)
- Editorial advisers:

  Mr Peter S H Wong (黃紹開先生)
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  Mr A R Hamilton (韓武敦先生)
  Dr K K Tse (謝家駒博士)

The sources of survey findings presented in this *Guide* include:-

- The Hong Kong Institute of Directors
- (UK) Institute of Directors
- (USA) National Association of Corporate Directors
- ProNed Australia
- Singapore Institute of Directors

HKIoD would like to acknowledge the above for sharing of imformation and to thank Australian Institute of Company Directors & Egon Zehnder International for their help in obtaining the survey reports.

Comments and suggestions for updating this *Guide* will be most welcome and appreciated.

CG
企管基金
FOUNDATION

Foundation set up by The Hong Kong Institute of Directors
to Promote Good Corporate Governance

Objectives of the Corporate Governance Development Foundation Fund:-

- To organise and sponsor training courses, seminars, exhibitions, conferences and other education relating to the promotion of good corporate governance to the general public.
- To promote interest, participation and involvement in the promotion of good corporate governance.

Corporate Governance Development Foundation Fund

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I. IN SEARCH OF INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

1. Diligence, Perception and Motivation

As a member of the board, which collectively bears the ultimate responsibility for corporate governance, an INED is as equally responsible as any other member on the board. INEDs are expected to exercise care, skills and due diligence and, in so doing, to spend sufficient time in fulfilling their responsibilities in the full role as directors. (For more details, please refer to HKIoD's ***Guide for Independent Non-Executive Directors.***)

A company in search of an INED should carefully define the qualities and skills of the candidates that best meet the company needs. To cater for cross-fertilization of ideas and a diversified combination of board members, thorough consideration should be given to complementary expertise/skills versus homogenous industry experience, multi-cultural backgrounds versus language differences and international perspectives versus local focus. Consideration should be given to setting up a Nomination Committee to handle the sourcing and vetting of candidates. Honest discussions with potential candidates will be conducive to mutual familiarization before identifying an appointee.

Appointed INEDs should be properly inducted and encouraged to take part in the board as team players and, likewise, other board members should be encouraged to make the best use of their advice and expertise.

An induction programme should be planned for a new appointee to provide familiarization with the company's business, mode of operations and policies. The induction activities should include, but not be limited to, orientation visits to the company, discussions with the Chairman, CEO and/or the executive management committee if applicable, discussions with key senior staff and, if practical, discussions with major shareholders/stakeholders. It is not unreasonable for an INED to spend a total of about 3-4 days in such induction programme.

In order to attract qualified persons to undertake appointments, it is crucial to offer fair compensation packages as well as the freedom for INEDs to exercise their functions and fulfill their responsibilities on the board, particularly from an independence perspective. Monetary rewards, integration into teamwork and job fulfillment all contribute to motivation for an INED.

2. Special Functions

There may, inevitably, be a need for INEDs to give separate opinions on documents involving connected party transactions, major transactions, etc. In the new regulatory regime, INEDs are generally core members of the Audit Committee, the Remuneration Committee and the Nomination Committee of listed companies. In particular, special risks and work are associated with the role of an INED on Audit Committees.

In addition to fulfilling the standard duties, functions and responsibilities of a board member, an INED may serve in a variety of other capacities such as, but not limited to, the following:-

(1) Ambassador, representing the company to the outside world.

(2) Catalyst, questioning existing assumptions, introducing new ideas and stimulating change.

(3) Confidant, serving as a sounding board for the Chairman, CEO, etc.

(4) Contact person, linking the board with useful networks, organizations or individuals.

(5) Independent voice, looking after the overall interests of all shareholders, including minority interests.

(6) Judge, seeing issues in their totality and providing objective judgments.

(7) Mentor, for Executive Directors ("EDs").

(8) Monitor, as an objective overseer of management.

(9) Arbitrator and/or "safety valve", mediating in crises in any conflicts between board members.

(10) Specialist, providing special skills and expertise to the board, such as the financial management expertise designated by the Listing Rules.

(11) Status provider, enhancing the standing, credibility and reputation of the board.

(12) "Window on the world", serving as a significant source for external/new information.

(13) Facilitator or "wise man", bringing new outside knowledge and experience to the board and thereby aiding in the decision-making process.

Similar to other board members, INEDs are required to approach their duties by looking after the overall interests of the company and not the particular interests of any specific shareholder, director, or other party. Where the interests of certain shareholders or minority shareholders are potentially compromised, an INED is expected to speak up and call for equality of treatment for all shareholders. An independent attitude should not be interpreted as arrogance or being uncooperative. One can be independent and remain a constructive member of the board. At times, an INED may be required to play the role of "loyal opposition" and, in so doing, will need to exercise good interpersonal skills and powers of persuasion.

While listed companies are mandated by regulatory requirements to engage INEDs on their boards, it is also recommended for private companies to introduce INEDs into their boards. Input from an "outside" perspective may bring in fresh ideas, objective views and neutrality, particularly when helping in the situation of contention or succession planning in a family business.

3. Risk Factor

The very serious fiduciary responsibility of INEDs should be considered when planning their remuneration. They should be compensated for the real risks that they are engaged upon in helping to govern a company on a part-time basis.

It is the INEDs' responsibility to make inquiries, raise concerns and ask for relevant information from the company, but the onus duty to supply the information is on the company. By the very nature of their non-executive role, INEDs are unable to gain access to full information unless it is provided in a timely manner by the senior management. While they should exercise care and judgment to ask questions on the data supplied, they have to trust their colleagues, to a certain extent, for supplying the relevant information.

Because all directors have the same legal responsibility, there is an additional risk element incurred in the position of an INED by nature of their particular role.

4. Sourcing of INEDs

The HKIoD **Board Appointment Service** facilitates the introduction of HKIoD members for consideration of appointment by listed companies searching for INEDs, companies seeking to enhance leadership at the board level, investment firms and business development funds placing INEDs on the boards of investee companies and government or public-service organizations appointing members to boards/committees. HKIoD maintains a database of qualified members who offer themselves for appointment as INEDs to provide companies with service from their expertise, experiences and knowledge in corporate governance.

A free service to both the searching companies and HKIoD members, the Board Appointment Service has proven to be the largest pool of professional directors available for appointment as INEDs. Details on the Board Appointment Service are obtainable from the HKIoD webpage http://www.hkiod.com.

Companies are also encouraged to engage in networking to seek referrals in sourcing for INEDs but are advised against appointing friends based on long-term friendship. Such appointments may be called into question as to their true independency.

5. Fair and Appropriate Levels of Compensation

Like other members on the board, INEDs are at risk of legal action and/or regulatory investigation/reprimands/convictions or civil fines. This, in turn, puts pressure on the remuneration question through the risk/reward equation.

In Annual Reports which show nil or very low INED fees, investment advisers and, indeed, shareholders could call into question the adequate fulfillment of the function. Regulatory authorities may also share the same concern or skepticism. Indeed, the amount of time, effort and diligence put forth by INEDs may be interpreted as being reflective of the amount of INED fees paid.

For listed companies, INEDs are indispensable members of the board. By remunerating them fairly, companies will be able to obtain qualified and capable INEDs well-prepared to offer higher value-added services. Having quality INEDs on its board enhances a company's profile among investors, analysts and regulatory bodies.

While INED fees should not be set at unreasonably high level as to affect the "independent" nature of the role, the above mentioned factors should be taken into consideration when determining a fair and appropriate remuneration level for the role and responsibilities of INEDs. Further considerations in developing an INED's fee package are addressed in the next section which sets out our guidelines.

1. Key Components

There are two key categories of factors to be considered in assessing appropriate/fair compensation packages for INEDs as follows:-

(1) Intangible factors associated with the nature of the board's work and the availability of candidates.

(2) Tangible components related to workload and/or special services computable on the basis of time spent on board activities.

2. Intangible Factors

2.1 Considerations

The intangible factors can include the following:-

(1) The significance, responsibility and potential risk of the role.

(2) Industry complexity and/or risk.

(3) The goodwill and reputational value brought to the company by the INED.

(4) The scarcity of the supply of enlightened candidates in the market with the necessary qualities to fill the position.

(5) Value added by the additional capacities or responsibilities taken up by the INED.

(6) The state of development of corporate governance practices in the company and executed by the board (whether these are in a start-up/developing, mature or advanced stage), which translates into the scale of the workload for the board.

(7) The board style and teamwork culture versus the ease or difficulty of integration for the INED.

(8) Any other hardship factors, eg in a merger situation.

When considering a compensation package for an INED, the above should be addressed and evaluated in comparison with how the EDs are remunerated and the service fees commanded by external advisers in the market. These factors contribute towards the determination of a justified unit rate for time spent.

2.2 Rates for Time Spent

In arriving at a rate for computing time-related INED fees, references may be made to:-

(1) How external advisers, eg of consultancy firms, charge clients for advice and counsel, which is a gauge for such expert service available in the market.

The external advisers are a key component in this formula because as an "external director", an INED brings to the board input and contribution, which would normally not be available from the "in-house directors" and would otherwise need to be obtained from external advisers.

(2) The average remuneration of the EDs in the company which, in turn, should reflect company performance, affordability and package rates.

(3) The average of (1) and (2), which amalgamates the above two factors and reflects proximity to market rates and in-house rates. Such adjustment may be adopted in consideration of the affordability of the company and the element of the spirit of public service in an INED's mission.

3. Tangible Components

3.1 Computable Time

The tangible components are the identifiable items for computing time spent and should include the following considerations:-

(1) Meetings that include, but are not limited to:-

- Board meetings.
- Committee meetings.
- Annual General Meetings and Special General Meetings.
- Visits to the company.
- Discussions with the Chairman, CEO and/or executive management committee.
- Discussions with external auditors and internal auditors.
- Discussions with major shareholder(s)/stakeholder(s).
- Board retreats or seminars.

(2) Time spent for meetings should include:-

- The duration of the meetings.
- Pre-meeting preparation, review of meeting papers and post-meeting follow-up. A ratio of meeting duration to pre-meeting and post-meeting work can be established for computation of total time spent. It is generally acknowledged that pre-meeting and post-meeting work add up to 150-200% of the duration time for a board/committee meeting.

(3) Where meetings/visits take place outside of Hong Kong for an INED who is a Hong Kong resident or where a non-resident serves as an INED for a Hong Kong board, travel time should be compensated and overnight stays and stand-by time should be considered.

3.2 Workload / Expectations

The workload of an INED will depend on the business nature, geographical location, board style, culture, corporate governance practices in place, etc. HKIoD believes that in order to exercise effective due diligence, it is not unreasonable for an INED to devote a minimum of 100-120 hours or 12-15 days per year, or approximately 1-1.2 days per month, to a company.

4. Fees

The INED fees can be established by taking an estimation of the time spent on regular events in the tangible components with the application of a fair rate related to the intangible factors.

Alternatively, a company may use a rule-of-thumb method by applying the salary rate of an in-house manager at a non-professional grade. Whilst being non-executive, an INED serves a significant role in the company and should be embraced as a member of the company. The application of the benchmark for an in-house manager reflects this integration and should be compatible with the scale of pay and affordability of the company.

More companies are now structuring the remuneration for INEDs to incorporate a basic fee plus fees for additional roles and responsibilities, such as the chairmanship or membership of the Audit Committee or other Committees. Such compensation for chairmanship should be balanced against the workload of such position.

5. Periodic Reviews of INED Terms

The hourly rates can change with the market and internal situations change over time. The workload and hence the time spent in fulfilling the duties of an INED can also vary in line with the business complexities and requirements of a company. The INED fees should, therefore, be reviewed from time to time to reflect reality and justification.

Related to the terms of engagement of an INED, the following may be considered:-

(1) A three-year term of contract with an option to renew, and

(2) A compensation package subject to an interim review, in conjunction with the review of the board performance, and revision, as necessary.

6. Directors & Officers ("D&O") Liability Insurance

Although not considered as a compensation element, (D&O) liability insurance has become a significant condition in engaging INEDs. As INEDs are at risk of legal action, they are in need of indemnity coverage as are all other directors. HKIoD advocates coverage by the company of D&O liability insurance for all board members. The premiums for D&O liability insurance can be relatively high and if INEDs are not insured directly by the company, their remuneration should cater for their need to pay for such insurance.

7. Expenses

Allowance should be made for the following expenses for an INED:-

(1) Travel expenses, if incurred, covering airfares or other forms of transport, accommodation and a per diem allowance for incidentals, in line with the entitlements of EDs.

(2) D&O liability insurance for the INED and, indeed, for all board members.

(3) External expert legal or other advice that an INED may deem necessary. In this case, there should be a policy on the procedures for an INED to request and obtain approval for a quoted amount for such external expert advice.

(4) CPD programmes for directors undertaken as an integral part of the company's initiatives to encourage Continuing Professional Development by all board members.

(5) Reimbursement of expenses incurred when executing duties on behalf of the company.

8. Termination, Dismissal and Redundancy

A company may find it helpful to have a policy on the compensation of INEDs in the event of release from the company due to poor performance, expiry of a specified contractual term or acquisition and forced departure. In such circumstances disputes can arise, so the extent to which compensation issues can be identified and dealt with contractually is in the interests of all parties.

9. Other Issues

The recommendations in this *Guide* do not cover:-

(1) Differentials in fees among INEDs of different experiences and qualifications; most companies tend to offer the same fee amount to each INED within the company.

(2) Incentives, whether through bonuses in cash or allocation of shares in the company; some hold the opinion that such incentives may affect an INED's independence.

These controversial issues require separate discussions. Companies should, therefore, exercise discretion by making reference to their own particular situations, always bearing in mind the very important principles of independence and fair compensation.

1. Rates for Time Spent

Example	Hourly Rates		
	Lower-end	Median	Upper-end
(1) External advisers/consultants	HK$2,500	HK$3,500	HK$4,500
(2) EDs @ HK$1M-3M pa*	HK$500	HK$1,000	HK$1,500
(3) Average between (1) and (2)	HK$1,500	HK$2,250	HK$3,000

*Note: 1,800-2,000 hours per annum – estimated amount taking into consideration 24 work days over 12 months less holidays and annual leave.

2. Time Spent

Case 1 - example of a Hong Kong based company	No. of Hours	Hours/Event	No./Year	Total Hours
Board Meetings in Hong Kong				
Meeting duration	3			
Pre-meeting & post-meeting work	6			
Hours Per Event		9	4	36
Committee Meetings in Hong Kong (4 Audit Committee meetings and 2 Remuneration Committee meetings)				
Meeting duration	2			
Pre-meeting & post-meeting work	4			
Hours Per Event		6	6	36
AGM in Hong Kong				
Meeting duration	1			
Pre-meeting & post-meeting work	1			
Hours Per Event		2	1	2
Company visits				
Meeting/visit time	7			
Pre-meeting and post-meeting work	10			
Hours Per Event		17	1	17
Discussions with Chairman and CEO in Hong Kong				
Meeting duration	1			
Pre-meeting and post-meeting work	2			
Hours Per Event		3	2	6
Discussions with External Auditors & Internal Auditors in Hong Kong				
Meeting duration	1			
Pre-meeting and post-meeting work	2			
Hours Per Event		3	2	6
Board Retreat/Seminar in Hong Kong				
Meeting duration	7			
Pre-meeting and post-meeting work	10			
Hours Per Event		17	1	17
Total Hours Per Year				120

Case 2 - Hong Kong based with operations in Shanghai	No. of Hours	Hours/Event	No./Year	Total Hours
Board Meetings in Hong Kong				
Meeting duration	2			
Pre-meeting & post-meeting work	6			
Hours Per Event		8	4	32
Committee Meetings in Hong Kong (4 Audit Committee meetings and 1 Remuneration Committee meeting)				
Meeting duration	2			
Pre-meeting & post-meeting work	4			
Hours Per Event		6	5	30
AGM in Hong Kong				
Meeting duration	1			
Pre-meeting & post-meeting work	1			
Hours Per Event		2	1	2
Company visits in Shanghai				
Flight and local travel time	8			
Meeting/visit time	7			
Pre-meeting and post-meeting work	10			
Hours Per Event		25	2	50
Discussions with Chairman and CEO in Hong Kong				
Meeting duration	1			
Pre-meeting and post-meeting work	2			
Hours Per Event		3	2	6
Discussions with External Auditors & Internal Auditors in Hong Kong				
Meeting duration	1			
Pre-meeting and post-meeting work	2			
Hours Per Event		3	2	6
Board Retreat/Seminar in Hong Kong				
Meeting duration	7			
Pre-meeting and post-meeting work	10			
Hours Per Event		17	1	17
Total Hours Per Year				143

3. Computation of Fees

3.1 By applying hourly rates to time spent

	No. of Hours	Applying Hourly Rates HK$					
		Lower End of Average		Median of Average		Upper End of Average	
		Hourly Rate	Fees	Hourly Rate	Fees	Hourly Rate	Fees
Case 1	120	1,500	180,000	2,250	270,000	3,000	360,000
Case 2	143	1,500	214,500	2,250	321,750	3,000	429,000

3.2 By benchmarking the salary of the administration manager in the company:-

Case 1: HK$20,000 per month x 12 = HK$240,000

Case 2: HK$30,000 per month x 12 = HK$360,000

1. Suggestions for the Contents of an INED's Letter of Appointment

(1) Term of appointment.

(2) Expectation of time commitment.

(3) Power and duties of directors.

(4) Special services attached to the position.

(5) Circumstances in which an office of director becomes vacant.

(6) Participation in committee work.

(7) Remuneration and expenses.

(8) Superannuation arrangements.

(9) Indemnity and insurance coverage.

(10) Requirement to disclose directors' interests and any matters where conflict or potential conflicts of interest may arise.

(11) Policy governing dealings in securities (including any share qualifications) and related financial instruments by directors.

(12) Induction training and arrangements for continuing professional development.

(13) Confidentiality and rights of access to corporate information.

(14) A copy of the Memorandum and Articles of Association.

2. Sample Letters of Appointment

[To be adjusted to the circumstances of each individual company.]

Letter 1

Dear................

It is with great pleasure that, on behalf of the Board of [•], I write to invite you to accept appointment as an independent non-executive director of [•].

It is proposed that, on receipt of your signed consent to act, you will be appointed to a casual vacancy on the Board until the next Annual General Meeting which is scheduled to be held on [•]. The Board intends that you should be nominated for election by the shareholders at that meeting for a period of three years. At the conclusion of that period you will be eligible for re-election. The composition of the Board is reviewed annually by the Nomination Committee in order to ensure that the membership composition of the Board is in the best interests of shareholders. It is the normal practice of the independent non-executive directors of this Board to serve no more than three terms of three years each.

The Board schedules regular meetings, usually on [•], which last approximately [•] hours. There is an annual [•]-day board conference and additional meetings may be called to deal with urgent or important matters. The attendance of directors is expected at all Board meetings unless leave of absence has been previously agreed with the Chairman. It is expected that each director will serve on at least one board committee. Over the last few years the time spent on their duties by members of the Board has averaged [•] days per year. No special duties apply to your appointment.

In addition, all directors are expected to commit to a programme of continuing professional development. New directors are expected to complete a formal induction programme before taking up their appointment. A copy of the standard programme is enclosed and you are invited to inform Mr [•], the Company Secretary, of any additional visits or briefings which you feel would be valuable to you.

Currently the remuneration of independent non-executive directors is HK$[•] per annum, payable [[•] times/quarterly] in arrears. Additional fees for committee work or other special activities are HK$[•]. No retirement benefits are provided. Expenses incurred in the discharge of a director's duties may be reclaimed by submission of a written claim, which should be sent to the Company Secretary and countersigned by the Chairman.

The Company indemnifies directors and pays the premium for a directors' and officers' liability insurance policy. A copy of the arrangements is enclosed.

The directors have agreed to be bound by the enclosed Board Protocol which covers such matters as the duties of directors, confidentiality, access to expert advice at the company's expense, contacts between directors and company executives, the handling of conflicts of interest and the positions of the Chairman and the Company Secretary. You will note that if a director should breach the Protocol he would be expected to resign.

A copy of the Company's Memorandum and Articles of Association, a list of the other directors with brief CVs, and a company organisation chart are attached for your information.

I look forward to welcoming you to your first meeting.

Yours sincerely,
Chairman

Letter 2

Dear ....

Appointment as Independent Non-Executive Director of
[•] ("the Company")

Thank you for agreeing to take up a position as an independent non-executive director of the Company. This letter sets out the terms upon which the Company proposes to appoint you.

1. Term and Compliance

Your appointment shall commence on [•] (the "Commencement Date") and, subject to the provisions of paragraph 4 below, shall continue provided that either you or the Company may terminate the engagement by giving to the other party at least six calendar month's notice in writing thereof.

During the period of your appointment (the "Term") and during the performance of your duties, you will ensure that you are aware of your legal obligations, and your obligations under the Securities and Futures Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules" and "the Stock Exchange", respectively) and other relevant regulations and requirements, as an independent non-executive director of the Company. You will also notify the board of directors of the Company ("the Board") immediately upon the occurrence of, or if you become aware of, any matter which may affect your independence for the purpose of the Listing Rules.

2. Remuneration and Expenses

The Company will pay to you during the Term a fee of HK$[•] per year, which shall be deemed to accrue on a day to day basis. This amount shall be payable to you in [•] instalments of HK$[•] in arrear during the Term at cycle dates of [•]. If termination of your appointment occurs on any day other than the specified cycle dates, the amount payable to you shall be pro-rated from the date of the last payment to the date upon which termination is effective (the "Termination Date").

The Company shall also pay to you such additional fees or other remuneration as agreed between the Company and you in respect of any special services to be rendered by you as may from to time be agreed. This amount shall be payable to you in such manner and at such time as may be agreed between you and the Company from time to time.

In addition, the Company shall also reimburse you for all reasonable expenses properly incurred by you in connection with your office, provided that you give the Company all appropriate receipts and vouchers.

3. Confidentiality

You must not at any time, whether during the Term or at any time afterwards, use, take away, conceal, destroy or retain either for your own advantage or the advantage of any other persons, except a member of the Company and its subsidiaries (the "Group") or an associated company of the Group or to the detriment of any member or associated company of the Group or (save to the extent as is required by relevant law, the requirements of the Stock Exchange or other regulatory requirements, or as is authorized by the Board) divulge or communicate to or cause or enable any third party to become aware of or use any:

3.1 financial, business or trading information or other confidential or personal information which you may receive or obtain in relation to the business, finances, dealings or affairs of any member or associated company of the Group, including any information regarding the projects or other technical data or the finances, contractual arrangements, employees or agents of any member or associated company of the Group.

3.2 trade secrets (including trade knowledge) and confidential know-how of or relating to any member or associated company of the Group or any of its businesses; or

3.3 information imparted to you on the express basis that it is confidential (together with the above, collectively referred to as "Confidential Information").

Confidential Information does not include any information or material which is in the public domain other than as a result of a breach by you of the terms of this letter.

All documents, records, correspondence, price lists, accounts, statistics, equipment or other property forming part of or relating to the Confidential Information and the businesses or affairs of the Company or any other member or associated company of the Group kept in your possession or under your control and all copies thereof or extracts therefrom (in whatever form they may be kept) made by yourself or on your behalf are and shall remain the property of the Company or such other member of the Group.

4. Termination

Your appointment shall automatically and immediately terminate if you cease to be an independent non-executive director of the Company or if you are not duly elected or re-elected at an Annual General Meeting of the Company. Termination shall not affect the continued application of the provisions of paragraphs 3 and 5 and the then accrued rights and liabilities of you and the Company under this letter.

You agree that you shall have no claim against the Company for damages or otherwise by reason of termination of your appointment under this letter, other than for any remuneration and expenses due to you under paragraph 2.

You also agree that, if you have not already ceased to be a director of the Company, you will duly resign in writing from such office forthwith upon Termination and, in the event of your failure to do so within seven days after the making of such request, the Company is irrevocably authorized to appoint any person in your name and on your behalf to give notice of such resignation and to do all other things requisite to give effect to such resignation.

5. Indemnity

The Company agrees to indemnify you and hold you harmless on demand from and against any and all losses, claims, damages, liabilities, and expenses, including without limitation, any proceedings brought against you, arising from the performance of your duties in connection with your appointment hereunder, so far as permitted by law and the Articles of Association of the Company, except in any case where the matter in respect of such indemnification is sought pursuant to this paragraph was caused by your willful default, willful misconduct or willful neglect.

6. General

This letter embodies all the terms and provision of and relating to your appointment as an independent non-executive director by the Company and supersedes all previous agreements relating to your appointment by the Company, if any. The terms of this letter may only be varied in writing by you and the Company and none of the rights or duties of the Company or yourself hereunder may be assigned, transferred, sub-contracted or delegated.

This letter is governed by and interpreted in accordance with Hong Kong law, and the Company and you both submit to the non-exclusive jurisdiction of the courts of Hong Kong in respect of all disputes and proceedings arising under this letter.

7. Acceptance

We should be obliged if you would please confirm your acceptance of the above terms by signing and returning to us the duplicate copy of this letter provided for that purpose.

For and on behalf of

[•]
Chairman

I accept the appointment as an independent non-executive director of the Company subject to the Articles of Association of the Company and on and subject to the terms set out in the letter of which this is a copy.

[•]
Independent Non-Executive Director

1. Hong Kong

Extracts of Findings from The HKIoD Corporate Governance Score-card 2009 commissioned by The Hong Kong Institute of Directors and executed by Research Team of Hong Kong Baptist University under the coordination of Prof Stephen Cheung.

The following are research findings on INED remuneration from the HKIoD Corporate Governance Score-card survey conducted in 2009 on the basis of the Annual Reports of 146 Hong Kong listed companies including HSI (Hang Seng Index), HSHKCI (Hang Seng Hong Kong Composite Index), HSCCI (Hang Seng China-Affiliated Corporation Index) and HSCEI (Hang Seng China Enterprise Index) constituent stocks.

Table 1.1 shows the average remuneration of INEDs per annum in Hong Kong. There are 614 INEDs in the sample without duplication. 81 INEDs receive less than HK$100,000 per year, 280 INEDs receive more than HK$100,000 and less than HK$300,000. 171 INEDs receive a payment between HK$300,000 and HK$500,000.

Table 1.1 Remuneration of INEDs in Hong Kong

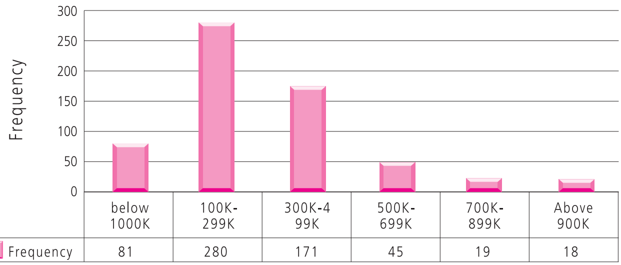

Table 1.2 shows the various types of fees received by INEDs in Hong Kong and their respective amounts. The analysis is based on a sample of 614 INEDs.

Table 1.2 Breakdown of INED fees

	Mean (in HK$)	Maximum (in HK$)	Standard Deviation (in HK$)
Basic fee	256,070	1,435,100	183,940
Salary, Allowance and benefits in kind	11,890	546,000	63,550
Committee fee	7,650	250,000	33,650
Share / option based compensation	279,070	1,670,000	172,040
Total fee	304,170	1,950,000	261,860

2. UK

Extracts of Findings from The 2009/10 Directors' Reward Survey by Croner Reward in association with the Institute of Directors (IoD).

Table 2.1 Basic pay for INEDs in various company sizes

Company Size	Turnover	Annual Pay	@£1=HK$12	Days worked per year
Small	Up to £5 Million	£12,000	HK$144,000	12
Medium	£5 - 50 Million	£15,000	HK$180,000	12
Large	£50 - 500 Million	£12,000	HK$144,000	24

3. USA

Extracts of Findings from the 2008-2009 Director Compensation Report published by National Association of Corporate Directors (NACD) in association with Pearl Meyer & Partners.

The Report presents findings of the annual survey of non-employee director compensation across a wide range of revenue groups as shown in Table 3.1. The Report also deals with the various pay elements in the compensation package, including annual cash retainer, board meeting fees, stock award and committee fees as shown in Table 3.2.

Table 3.1 Director compensation in various company sizes

Company Size	Revenue	Total Compensation pa (median)	@US$1=HK$7.8
Smaller	US$50 million - <500 million	US$78,060	HK$608,868
Small	US$500 million - <1 billion	US$116,111	HK$905,666
Medium	US$1 billion - <2.5 billion	US$133,470	HK$1,041,066
Large	US$2.5 billion - ≤10 billion	US$166,250	HK$1,296,750
Top 200	Over US$10 billion	US$213,899	HK$1,668,412

Table 3.2 Median pay elements in total compensation

Company Size / Pay Elements	Annual Cash Retainer (@US$1=HK$7.8)	Board Meeting Fees (@US$1=HK$7.8)	Stock Award (@US$1=HK$7.8)	Committee Fees (@US$1=HK$7.8)
Smaller	US$25,000 (HK$195,000)	US$10,000 (HK$78,000)	US$30,463 (HK$237,611)	US$9,601 (HK$74,888)
Small	US$31,200 (HK$243,360)	US$10,500 (HK$81,900)	US$52,111 (HK$406,466)	US$12,400 (HK$96,720)
Medium	US$40,000 (HK$312,000)	US$12,000 (HK$93,600)	US$65,000 (HK$507,000)	US$14,594 (HK$113,833)
Large	US$50,000 (HK$390,000)	US$14,500 (HK$113,100)	US$85,000 (HK$663,000)	US$15,650 (HK$122,070)
Top 200	US$70,000 (HK$546,000)	US$16,000 (HK$124,800)	US$120,000 (HK$936,000)	US$14,165 (HK$110,487)

4. Australia

Extracts of Findings from Non-Executive Directors' Survey Report 2009 commissioned by ProNed Australia. The Report is supplied by Australian Institute of Company Directors (AICD).

Table 4.1 Board fees of non-executive directors in various company types and turnover bands

Company type / Turnover	Up to A$50 million (@A$1=HK$7)	A$51-100 million (@A$1=HK$7)	A$101-250 million (@A$1=HK$7)	Above A$250 million (@A$1=HK$7)
Public Companies				
Median board fees @A$1=HK$7	A$40,000 (HK$280,000)	A$42,000 (HK$294,000)	A$66,000 (HK$462,000)	A$79,250 (HK$554,750)
Average board fees @A$1=HK$7	A$38,806 (HK$271,642)	A$48,611 (HK$340,277)	A$66,100 (HK$462,700)	A$88,282 (HK$617,974)
Private Company				
Median board fees @A$1=HK$7	A$35,000 (HK$245,000)	A$40,000 (HK$280,000)	A$37,500 (HK$262,500)	A$50,000 (HK$350,000)
Average board fees @A$1=HK$7	A$35,417 (HK$247,919)	A$37,833 (HK$264,831)	A$34,750 (HK$243,250)	A$48,600 (HK$340,200)
Government				
Median board fees @A$1=HK$7	A$25,150 (HK$176,050)	A$30,000 (HK$210,000)	A$25,000 (HK$175,000)	A$45,000 (HK$315,000)
Average board fees @A$1=HK$7	A$21,325 (HK$149,275)	A$31,429 (HK$220,003)	A$23,000 (HK$161,000)	A$48,090 (HK$336,630)
Co-operative/Credit Union				
Median board fees @A$1=HK$7	A$27,500 (HK$192,500)	A$44,000 (HK$308,000)	A$41,000 (HK$287,000)	A$86,000 (HK$602,000)
Average board fees @A$1=HK$7	A$37,750 (HK$264,250)	A$46,667 (HK$326,669)	A$40,333 (HK$282,331)	A$86,000 (HK$602,000)
Not for Profit				
Median board fees @A$1=HK$7	A$20,000 (HK$140,000)	A$18,000 (HK$126,000)	A$25,000 (HK$175,000)	A$37,500 (HK$262,500)
Average board fees @A$1=HK$7	A$21,667 (HK$151,669)	A$18,000 (HK$126,000)	A$28,333 (HK$198,331)	A$56,250 (HK$393,750)

5. Singapore

Extracts of Findings from the Singapore Board of Directors Survey 2008/09 on listed companies in 2009 by the Singapore Institute of Directors (SID) in conjunction with Singapore Exchange Ltd, Aon Consulting, Egon Zehnder International and PricewaterhouseCoopers.

Table 5.1 Basic fees paid to NEDs per annum

Basic fees pa	@S$1 = HK$5	% of companies
<S$15,000	<HK$75,000	5%
S$15,000 to <S$25,000	HK$75,000 to <HK$125,000	16%
S$25,000 to <S$50,000	HK$125,000 to <HK$250,000	56%
S$50,000 to <S$75,000	HK$250,000 to <HK$375,000	12%
S$75,000 to <S$100,000	HK$375,000 to <HK500,000	5%
S$100,000 or above	HK$500,000 or above	7%

* *Total number of companies participated in the survey: 124.*

Table 5.2 Breakdown of additional fees for NEDs pa

Responsibility / Amount of fees	<S$5,000	S$5,000 to <S$10,000	S$10,000 to <S$20,000	S$20,000 to <S$30,000	≥S$30,000	No. of companies paying additional fees
@S$1=HK$5	<HK$25,000	HK$25,000 to <HK$50,000	HK$50,000 to <HK$100,000	HK$100,000 to <HK$150,000	≥HK$150,000	
Chairman - Board	2%	18%	14%	18%	48%	50
Chairman - Audit Committee	9%	20%	30%	23%	18%	83
Chairman - Remuneration Committee	15%	34%	31%	13%	7%	71
Chairman - Nominating Committee	19%	27%	37%	10%	7%	70
Attendance at board meetings	65%	20%	10%	5%	0%	20

* *Total number of companies participated in the survey: 124.*

Note: The surveys were conducted on different bases in different settings of the various territories, with figures collected at different timings, though within the proximity of two years.